

**West Feliciana Parish Hospital
Service District No. 1
A Component Unit of the
West Feliciana Parish Police Jury
St. Francisville, Louisiana
October 31, 2013**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date APR 30 2014

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**West Feliciana Parish Hospital Service District No. 1
Management's Discussion and Analysis of the Basic Financial Statements
October 31, 2013**

This portion of the Hospital's annual financial reporting presents background information and management's review of the Hospital's financial performance during the fiscal year ending October 31, 2013. This Section should be interpreted within the context of financial statements as displayed in this report.

FINANCIAL HIGHLIGHTS

Fiscal year 2013 was another solid financial year for West Feliciana Parish Hospital. The IOP Program, which was opened in 2012, continued to grow and added significant outpatient revenue. The Hospital moved its Pediatrician to join the practice of the only other Pediatrician in the community. This move took place in July 2013 and has already increased billing for the Pediatrician in just the first three months of the move.

Current assets were reduced by \$1.3 million and capital assets grew by \$1.5 million largely due to the use of cash to purchase land for the construction project, which is why the assets of land and construction in progress grew by \$1.0 million. The Hospital was able to reduce its current liabilities by \$2.2 million. Fiscal year 2013 saw the implementation of Sequestration and reduction of the State's DSH allocation. Despite these reductions, the Hospital still managed to show an increase in its year-end net position of \$1.6 million.

REQUIRED FINANCIAL STATEMENTS

The basic financial statements of the Hospital report information regarding the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Statements of Net Position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. This statement measures improvements in the Hospital's operations over the past year, and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash flows from operations and financial activities, as well as define the sources of cash, its use, and cash balance changes during the reporting period. Additional statistical information and notes are offered as support, explanation and information.

FINANCIAL ANALYSIS OF THE HOSPITAL SERVICE DISTRICT

The Statements of Net Position and Statements of Revenue, Expenses, and Changes in Net Position report data about the Hospital's activities. These two (2) statements report the net position of the Hospital and changes in it. Increases or decreases in net position are one indicator regarding the financial integrity of the Hospital. Other non-financial indicators include changes in state and local economic conditions, as well as regulatory changes regarding Medicare and Medicaid, especially as these may impact Critical Access Hospital status, and related cost based reimbursements.

West Feliciana Parish Hospital Service District No. 1
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Net Position

Condensed statements of net position as of October 31, 2013, 2012, and 2011 are displayed in the following table:

Condensed Statements of Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 12,692,805	\$ 14,002,473	\$ 9,691,559
Assets limited as to use	10,539,918	10,447,750	10,229,351
Capital assets	<u>6,747,983</u>	<u>6,066,280</u>	<u>6,729,367</u>
Total assets	<u>\$ 29,980,706</u>	<u>\$ 30,516,503</u>	<u>\$ 26,650,277</u>
Current liabilities	\$ 1,097,032	\$ 3,263,349	\$ 1,834,994
Net position	<u>28,883,674</u>	<u>27,253,154</u>	<u>24,815,283</u>
Total liabilities and net position	<u>\$ 29,980,706</u>	<u>\$ 30,516,503</u>	<u>\$ 26,650,277</u>

The following table presents the components of the Hospital's net position as of October 31, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net investment in capital assets	\$ 6,747,983	\$ 6,066,280	\$ 6,729,367
Reserved for capital projects (expendable)	10,539,918	10,447,750	10,229,351
Unrestricted	<u>11,595,773</u>	<u>10,739,124</u>	<u>7,856,565</u>
Total net position	<u>\$ 28,883,674</u>	<u>\$ 27,253,154</u>	<u>\$ 24,815,283</u>

Capital Assets

The following table presents the components of capital assets at October 31, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 1,372,877	\$ 554,633	\$ 540,922
Buildings and leasehold improvements	6,124,032	6,070,058	4,597,181
Equipment	6,414,015	6,015,056	5,231,043
Construction in progress	<u>284,143</u>	<u>49,465</u>	<u>2,285,632</u>
	14,195,067	12,689,212	12,654,778
Less: accumulated depreciation	<u>7,447,084</u>	<u>6,622,932</u>	<u>5,925,411</u>
Total capital assets, net	<u>\$ 6,747,983</u>	<u>\$ 6,066,280</u>	<u>\$ 6,729,367</u>

West Feliciana Parish Hospital Service District No. 1
Management's Discussion and Analysis of the Basic Financial Statements
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Summary of Revenue, Expenses, and Changes in Net Position

The following table presents a summary of the Hospital's revenues and expenses for the latest three fiscal years.

Condensed Statements of Revenue, Expenses and Changes in Net Position			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net patient service revenue			
less provision for bad debts	\$ 10,700,281	\$ 11,337,815	\$ 9,439,573
Other operating revenue	<u>3,826,214</u>	3,694,552	1,084,771
Total operating revenue	<u>14,526,495</u>	15,032,367	<u>10,524,344</u>
Salary expense	7,353,027	6,741,489	5,686,049
Other operating expenses	6,778,475	7,474,713	5,003,700
Depreciation	<u>923,093</u>	<u>797,102</u>	<u>661,886</u>
Total operating expenses	<u>15,054,595</u>	15,013,304	<u>11,351,635</u>
Tax revenues	1,949,243	2,093,537	1,872,429
Interest income	161,863	281,694	251,368
Other non-operating revenue	51,438	45,891	717,230
Non-operating expenses	<u>(3,924)</u>	<u>(2,314)</u>	<u>(2,208)</u>
Total non-operating revenues	<u>2,158,610</u>	<u>2,418,808</u>	<u>2,838,819</u>
Change in Net Position	<u>1,630,510</u>	<u>2,437,871</u>	<u>2,011,528</u>
Net Position at beginning of fiscal year	<u>27,253,154</u>	<u>24,815,283</u>	<u>22,803,755</u>
Net Position at conclusion of fiscal year	\$ 28,883,674	\$ 27,253,154	\$ 24,815,283

SOURCES OF REVENUE

The Hospital derives the majority of its total revenue from patient service operations. The following table displays payor mix percentages as a function of total billed charges during 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare	25%	25%	23%
Medicaid	21%	21%	23%
Commercial and other	39%	40%	38%
Self-Pay	15%	14%	16%

The Hospital derives additional revenues from Ad Valorem Taxes, Grants, and Donations.

**West Feliciana Parish Hospital Service District No. 1
Management's Discussion and Analysis of the Basic Financial Statements
October 31, 2013**

OPERATING AND FINANCIAL PERFORMANCE

The Hospital's primary source of revenue is derived from patient services and is driven by admissions. The practical end of patient revenue involves converting admissions and treatment into cash collections. The industry standard regarding management of receivables is the measure of outstanding days in accounts receivable. The following table displays both inpatient days, along with days in accounts receivable from 2013, 2012, and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Inpatient Days	236	375	403
Net Outstanding Days in A/R	31	38	27

BUDGET AND STRATEGY FOR FISCAL YEAR 2014

The 2014 budget was approved by the Board of Commissioners during its regular meeting in October 2013. Highlights and expectations regarding 2014 are as follows:

The Budget was prepared with the anticipation that the organization will devote most of this year to developing the plans for the Hospital construction project and the infrastructure changes that must take place to make the construction project successful. As planned, the Hospital purchased the land adjacent to its current property and has engaged Architects, a Project Manager, and Construction Manager to begin the design process. Current projections show the ground breaking is scheduled for the end of calendar year 2014.

With the delay of many of the requirements of the Affordable Care Act (ACA) and since Louisiana chose not to expand Medicaid, the initial impact of ACA has been minimal, at least to this point.

Plans to expand services prior to the Hospital construction are still being implemented. It is projected that by year-end, the campus will have at least two additional Physician specialties seeing patients. Fiscal year 2014 should prove to be a challenging year, not only because of the construction project, but also because of the ever- changing healthcare industry.

CONTACTING THE HOSPITAL'S CHIEF FINANCIAL OFFICER

This financial report is intended to provide our community, patients, and creditors with a general overview of the Hospital's financial position, and demonstrate accountability regarding all revenues received. If further information is required, requests should be submitted in writing to:

Chief Financial Officer
West Feliciana Parish Hospital
5266 Commerce Street
St. Francisville, LA 70775

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Independent Auditor's Report

Board of Commissioners
West Feliciana Parish Hospital Service District No. 1
St. Francisville, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of West Feliciana Parish Hospital Service District No. 1 (a Component Unit of the West Feliciana Parish Police Jury), which comprise the statements of net position as of October 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Feliciana Parish Hospital Service District No. 1 as of October 31, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2014 on our consideration of West Feliciana Parish Hospital Service District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Feliciana Parish Hospital Service District No. 1's internal control over financial reporting and compliance.

Hawthorn, Raymond & Powell, LLP

April 3, 2014

West Feliciana Parish Hospital Service District No. 1
Statements of Net Position
October 31, 2013 and 2012

A s s e t s		
	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 4,300,293	\$ 5,189,163
Certificates of deposit	3,457,256	3,419,950
Accounts receivable, less allowance for doubtful accounts	1,142,156	1,182,526
Due from third party payors	838,020	2,424,476
Accounts receivable - other	2,255,811	1,161,161
Inventory	451,569	437,208
Prepaid expenses	<u>247,700</u>	<u>187,989</u>
Total current assets	<u>12,692,805</u>	<u>14,002,473</u>
Assets Limited As to Use		
Cash and cash equivalents	2,576,977	1,751,860
Certificates of deposit	2,305,933	2,988,379
Investments	<u>5,657,008</u>	<u>5,707,511</u>
Total assets limited as to use	<u>10,539,918</u>	<u>10,447,750</u>
Capital Assets		
Land and land improvements	1,372,877	554,633
Buildings and leasehold improvements	6,124,032	6,070,058
Equipment	6,414,015	6,015,056
Construction in progress	<u>284,143</u>	<u>49,465</u>
	14,195,067	12,689,212
Less: accumulated depreciation	<u>7,447,084</u>	<u>6,622,932</u>
Total capital assets, net	<u>6,747,983</u>	<u>6,066,280</u>
 Total assets	 <u>\$ 29,980,706</u>	 <u>\$ 30,516,503</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 420,225	\$ 373,452
Accrued expenses	242,681	162,168
Accrued salaries and wages	207,846	151,991
Accrued compensated absences	226,280	209,719
Deferred revenue	<u>-</u>	<u>2,366,019</u>
Total current liabilities	<u>1,097,032</u>	<u>3,263,349</u>
Net Position		
Net investment in capital assets	6,747,983	6,066,280
Reserved for capital projects (expendable)	10,539,918	10,447,750
Unrestricted	<u>11,595,773</u>	<u>10,739,124</u>
Total net position	<u>28,883,674</u>	<u>27,253,154</u>
 Total liabilities and net position	 <u>\$ 29,980,706</u>	 <u>\$ 30,516,503</u>

The accompanying notes are an integral part of these financial statements.

West Feliciana Parish Hospital Service District No. 1
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended October 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenue		
Patient service revenue (net of contractual adjustments and discounts)	\$13,552,758	\$13,739,997
Provision for bad debts	(2,852,477)	(2,402,182)
Net patient service revenue less provision for bad debts	10,700,281	11,337,815
Other operating revenue	3,826,214	3,694,552
Total operating revenue	14,526,495	15,032,367
Operating Expenses		
Salaries, wages and benefits	7,353,027	6,741,489
Professional services	3,263,091	3,123,801
Supplies	1,323,998	1,277,639
Other operating expenses	2,191,386	1,849,447
Depreciation	923,093	797,102
Abandonment of hospital renovation plans	—	1,223,826
Total operating expenses	15,054,595	15,013,304
Operating income (loss)	(528,100)	19,063
Non-Operating Revenues (Expenses)		
Interest income	161,863	281,694
Interest expense	(3,924)	(2,314)
Tax revenues	1,919,243	2,093,537
Gain on sale of assets	5,356	4,341
Other non-operating revenues	46,082	41,550
Total non-operating revenues	2,158,620	2,418,808
Change in Net Position	1,630,520	2,437,871
Net Position, beginning of year	27,253,154	24,815,283
Net Position, end of year	<u>\$28,883,674</u>	<u>\$27,253,154</u>

The accompanying notes are an integral part of these financial statements.

West Feliciana Parish Hospital Service District No. 1
Statements of Cash Flows
Years Ended October 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$12,607,766	\$13,953,909
Payments to suppliers for goods and services	(6,725,259)	(6,293,279)
Payments to employees for services	(7,280,611)	(6,674,584)
Net cash provided by (used in) operating activities	<u>(1,398,104)</u>	<u>986,046</u>
Cash Flows From Non-Capital Financing Activities		
Tax receipts	1,989,868	2,039,537
Other income	<u>105,045</u>	<u>76,468</u>
Net cash provided by non-capital financing activities	<u>2,094,913</u>	<u>2,116,005</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(1,604,796)	(1,329,898)
Interest paid	<u>(3,924)</u>	<u>(2,314)</u>
Net cash used in capital and related financing activities	<u>(1,608,720)</u>	<u>(1,332,212)</u>
Cash Flows From Investing Activities		
Purchase of certificates of deposit	(100,860)	(1,281,432)
Sales and maturities of certificates of deposit	746,000	100,000
Purchase of investments	(1,386,497)	(1,276,263)
Sales and maturities of investments	1,437,000	2,900,000
Interest income	147,159	279,424
Proceeds from sale of assets	<u>5,356</u>	<u>4,341</u>
Net cash provided by investing activities	<u>848,158</u>	<u>726,070</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(63,753)	2,495,909
Cash and Cash Equivalents, beginning of year		
Including \$1,751,860 and \$1,151,723 limited		
as to use for 2013 and 2012, respectively	<u>6,941,023</u>	<u>4,445,114</u>
Cash and Cash Equivalents, end of year		
Including \$2,576,977 and \$1,751,860 limited		
as to use for 2013 and 2012, respectively	<u>\$ 6,877,270</u>	<u>\$ 6,941,023</u>

The accompanying notes are an integral part of these financial statements.

West Feliciana Parish Hospital Service District No. 1
Statements of Cash Flows
Years Ended October 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (528,100)	\$ 19,063
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	923,093	797,102
Abandonment of hospital renovation plans	—	1,223,826
Provision for doubtful accounts	2,852,477	2,402,182
(Increase) Decrease in assets:		
Patient accounts receivable	(5,178,480)	(1,406,313)
Due from third party payors	1,586,456	(1,703,707)
Other receivables	(1,179,180)	(370,620)
Inventory	(14,361)	(15,633)
Prepaid expenses	(59,711)	(61,654)
Increase (Decrease) in liabilities:		
Accounts payable	46,773	32,580
Accrued expenses	80,513	2,315
Accrued salaries and wages	55,855	42,691
Accrued compensated absences	<u>16,561</u>	<u>24,214</u>
 Net cash provided by (used in) operating activities	 <u>\$ (1,398,104)</u>	 <u>\$ 986,046</u>

The accompanying notes are an integral part of these financial statements.

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 1-Summary of Significant Accounting Policies

A. Legal Organization

On February 21, 1968, the West Feliciana Parish Police Jury passed a resolution creating the West Feliciana Parish Hospital Service District No. 1 ("the Hospital") under the authority of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, as amended. The Hospital is a political subdivision of the West Feliciana Parish Police Jury, whose jurors are elected officials. The Hospital's seven (7) commissioners are appointed by the West Feliciana Parish Police Jury.

B. Nature of Business

The Hospital primarily earns revenue by providing inpatient, outpatient, and emergency care services to patients in the West Feliciana Parish area.

C. Basis of Accounting and Presentation

The Hospital utilizes the proprietary fund method of accounting, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

As a proprietary fund, the Hospital distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing patient services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Hospital's proprietary fund are charges to customers related to patient services. Operating expenses for the Hospital's proprietary fund include patient care expenses, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Hospital follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989 to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Hospital has elected not to follow subsequent private-sector guidance.

The Hospital follows GASB standards for state and local governments which require that resources be classified for accounting and reporting purposes into the following three net position components:

- The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted net position results when external constraints are placed on asset use by creditors, grantors, contributors, or laws through constitutional provisions or enabling legislation.

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 1-Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting and Presentation (Continued)

- The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider it to be available for general operations; however, these designations can be removed or modified. At October 31, 2013 and 2012, the Hospital had \$10,539,918 and \$10,447,750, respectively, of unrestricted net position that was reserved for capital projects.

D. Reporting Entity

As the governing authority of the parish, for reporting purposes, the West Feliciana Parish Police Jury is the financial reporting entity for West Feliciana Parish. The financial reporting entity consists of (a) the primary government (Jury), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the West Feliciana Parish Police Jury for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability.

This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
 - a. The ability of the police jury to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.
2. Organizations for which the police jury does not appoint a voting majority, but are fiscally dependent on the police jury.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the police jury appoints all members to the Hospital's Board of Commissioners, the Hospital was determined to be a component unit of the West Feliciana Parish Police Jury, the financial reporting entity. The accompanying financial statements present information only of the funds maintained by the Hospital and do not present information on the police jury, the general government services provided by that governmental unit, or the other governmental units that compromise the financial reporting entity.

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 1-Summary of Significant Accounting Policies (Continued)

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant item on the Statements of Net Position that involves a greater degree of accounting estimates subject to changes in the near future is the assessment of the allowance for doubtful accounts. As additional information becomes available (or actual amounts are determinable), the recorded estimates are revised and reflected in operating results of the period they are determined.

F. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Hospital considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

G. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable from patients, insurance companies, and third-party reimbursement contractual agencies are recorded at established charge rates. Certain third-party insured accounts (Medicare and Medicaid) are based on cost reimbursement agreements, which generally result in the Hospital collecting more or less than the established charge rates with the difference recorded as "contractual adjustments." Final determination of settlement is subject to review by appropriate authorities.

The Hospital provides an allowance for doubtful accounts equal to the estimated collection losses that will be incurred in collection of all receivables. Management estimates the losses based on historical collection experience coupled with a review of the current status of existing receivables. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

H. Inventory

Inventory is valued at the lower of cost or market (first-in, first-out method). Inventory is comprised of departmental supplies and pharmaceutical items.

I. Investments

Investments in debt and equity securities are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 1-Summary of Significant Accounting Policies (Continued)

J. Capital Assets

Capital assets are stated at cost, except for assets donated to the Hospital. Donated assets are recorded at the appraised value at the date of donation. Depreciation is recorded on a straight-line basis over the useful lives of the assets. Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures in excess of \$5,000 for major renewals and betterments that extend the useful lives of capital assets are capitalized. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital had no capitalized interest for the years ended October 31, 2013 and 2012.

The following estimated useful lives are used:

Buildings and Leasehold Improvements	5 - 40 years
Equipment	5 - 20 years

Gifts of long-lived assets such as land, buildings, or equipment with no donor stipulations are reported as unrestricted support, while those with explicit donor stipulations are reported as restricted support.

K. Operating Revenues and Expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

L. Net Patient Service Revenue

The Hospital is a "Critical Access Hospital" (CAH), which allows it to receive cost based reimbursements from Medicare and Medicaid.

The Hospital has agreements with third-party payors that provide payments to the Hospital at amounts different from its established rates. Inpatient acute care services, swing bed services and outpatient services rendered to Medicare program beneficiaries are reimbursed at cost plus one percent (subject to limits, rules and regulations), while other outpatient laboratory services are reimbursed on a fee schedule. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through October 31, 2011.

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day. Certain outpatient services to Medicaid program beneficiaries are reimbursed at cost plus ten percent, subject to certain limits, while other outpatient services are reimbursed on a fee schedule. The Hospital is reimbursed for outpatient services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through October 31, 2010.

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 1-Summary of Significant Accounting Policies (Continued)

L. Net Patient Service Revenue (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments will be recorded in the year they are realized.

The Hospital has entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates. To the extent management's estimate differs from actual results, the differences will be recorded in the year such differences arise.

M. Charity Care

The Hospital provides care, without charge or at amounts less than its established rates, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts qualifying as charity care, they are not reported as revenue.

N. Grants and Donations

Grants and donations (including capital contributions of assets) are recognized as revenue when all eligibility requirements, including time requirements, imposed by the provider have been met.

O. Property Taxes

The Hospital receives a 2.00 mill property tax, which is levied January 1 each year, payable by December 31 of that year. The Hospital records the expected revenues to be received based on factors such as previous years' collections of assessments and the estimated taxable assessed value for the current year. Adjustments are made upon final receipts. The tax is in effect through 2016.

P. Income Taxes

The Hospital is exempt from income taxes under Internal Revenue Code Section 115.

Q. Advertising

Advertising costs are expensed as incurred. Advertising costs of \$197,846 and \$201,192 were expensed in 2013 and 2012, respectively.

R. Environmental Matters

Due to the nature of the Hospital's operations, materials handled could lead to environmental concerns. However, at this time, management is not aware of any environmental matters which need to be considered.

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 1-Summary of Significant Accounting Policies (Continued)

S. Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental, and accident benefits. The Hospital is a member of two separate trust funds established by the Louisiana Hospital Association that encompasses self-insurance of 1) Hospital professional liability and comprehensive general liability and 2) statutory workers' compensation. The Hospital continues to carry commercial insurance for all other risks of loss. As of October 31, 2013 and 2012, the Hospital has no known malpractice claims exceeding its coverage.

T. Fair Value Measurements

The Hospital follows FASB ASC 820, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. This topic establishes a hierarchical framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment.

The Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Hospital determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level I: Quoted prices (unadjusted) in active markets accessible at the measurement date.
- Level II: Prices based on observable inputs corroborated by market data, but no quoted active markets.
- Level III: Prices based on unobservable inputs, including situations where there is little, if any, market activity for the assets or liabilities. The inputs used in the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investments.

U. Recent Pronouncements

The Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 1-Summary of Significant Accounting Policies (Continued)

U Recent Pronouncements (Continued)

GASB Statement No. 63 introduced and defined deferred outflows of resources and deferred inflows of resources as consumption and an acquisition, respectively, of net assets by the government that is applicable to a future reporting period. It also identifies net position, rather than net assets, as the residual of all elements presented in a statement of net position

V. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform with the current year's financial statement presentation. The reclassifications had no effect on net position or the change in net position.

Note 2-Deposits and Investments

The Hospital has various deposits and investments. The amounts reflected on the accompanying Statements of Net Position are as follows:

	<u>2013</u>	<u>2012</u>
Operations		
Cash and cash equivalents	\$ 4,300,293	\$ 5,189,163
Certificates of deposit	3,457,256	3,419,950
Assets Limited As to Use		
Cash and cash equivalents	2,576,977	1,751,860
Certificates of deposit	2,305,933	2,988,379
Investments	<u>5,657,008</u>	<u>5,707,511</u>
Total	<u>\$ 18,297,467</u>	<u>\$ 19,056,863</u>

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. In accordance with state law, the Hospital's deposits were either insured or collateralized by securities held by the pledging financial institution's trust department in the Hospital's name at October 31, 2013 and 2012

The Hospital's investment policies comply with state statutes. Funds may be invested in time deposits, money market investment accounts, or certificates of deposit with financial institutions insured by the FDIC; direct obligations of the United States Government and its agencies; investment grade commercial paper of domestic United States corporations, one of the two highest short-term rating categories of either Standards & Poor's Corporation or Moody's Investors Service; and government backed mutual trust funds

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 2-Deposits and Investments (Continued)

The Hospital's investments are generally reported at fair value, as discussed in Note 1. At October 31, 2013 and 2012, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by a custodial bank that is an agent of the Hospital.

Type	Fair Value	Maturities in Years			
		Less than 1	1 - 5	6 - 10	More than 10
October 31, 2013					
U S. Agencies	\$5,408,132	\$ 708,431	\$ 4,699,701	\$ -	\$ -
U S Treasury Bills	<u>248,876</u>	<u>-</u>	<u>248,876</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$5,657,008</u>	<u>\$ 708,431</u>	<u>\$ 4,948,577</u>	<u>\$ -</u>	<u>\$ -</u>
October 31, 2012					
U S Agencies	\$5,209,029	\$1,194,187	\$ 4,014,842	\$ -	\$ -
U.S. Treasury Bills	<u>498,482</u>	<u>250,000</u>	<u>-</u>	<u>248,482</u>	<u>-</u>
Total investments	<u>\$5,707,511</u>	<u>\$1,444,187</u>	<u>\$ 4,014,842</u>	<u>\$ 248,482</u>	<u>\$ -</u>

Interest Rate Risk As a means of limiting exposure to fair value losses arising from rising interest rates, the Hospital limits investments to highly liquid investments or marketable U.S. Treasury and U S. agency obligations

Credit Risk Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital limits this risk by investment in obligations of the U.S. government or other investments authorized by statute. At October 31, 2013, the Hospital's investments in U.S. agency obligations were comprised of bonds and notes issued by the Federal Home Loan Bank, the Federal National Mortgage Association, and the Federal Farm Credit Bank. These investments were rated either AA+ or AA- by Standards & Poor's and either AAA or A2 by Moody's Investors Service

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's policy with respect to custodial risk is based on Louisiana statutes

Concentration of Credit Risk The Hospital's investment policy does not limit the amount the Hospital may invest in any one issuer. The Hospital's investments in Federal Home Loan Bank, Federal National Mortgage Association, and Federal Farm Credit Bank are each in excess of 5% of the Hospital's total investments. These investments are 68%, 17%, and 11%, respectively, of total investments at October 31, 2013

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 3-Certificates of Deposit

The Hospital has certificates of deposit with various federally insured financial institutions. The certificates of deposit bear interest at rates ranging from 0.05% to 3.92% per annum and have maturity dates ranging from six months to five years.

Note 4-Assets Limited As To Use

Assets whose use is limited under Board designations for the replacement of depreciable capital assets are summarized as follows:

	<u>2013</u>	<u>2012</u>
Cash		
Merrill Lynch - Bank Deposit Program yielding up to .07%	\$ —	\$ 41,857
Hancock Bank - Savings yielding .10%	<u>2,576,977</u>	<u>1,710,003</u>
Total cash limited as to use	<u>\$ 2,576,977</u>	<u>\$ 1,751,860</u>
Certificates of Deposit		
Merrill Lynch - CDs/Equivalents yielding .12% to 1.85%	<u>\$ 2,305,933</u>	<u>\$ 2,988,379</u>
Total certificates of deposit limited as to use	<u>\$ 2,305,933</u>	<u>\$ 2,988,379</u>
Investments		
Merrill Lynch - FNMA Notes, FHLB Bonds and Notes, and FFCB Bonds yielding up to 10.35%	\$ 5,408,132	\$ 5,209,029
Treasury Bills	<u>248,876</u>	<u>498,482</u>
Total investments limited as to use	<u>\$ 5,657,008</u>	<u>\$ 5,707,511</u>
Total assets limited as to use	<u>\$ 10,539,918</u>	<u>\$ 10,447,750</u>

Note 5-Accounts Receivable - Patients

Patient account receivables consist of the following:

	<u>2013</u>	<u>2012</u>
Total patient accounts receivable	\$ 4,983,715	\$ 4,379,797
Less: allowance for uncollectible accounts	<u>(3,841,559)</u>	<u>(3,197,271)</u>
Net patient accounts receivable	<u>\$ 1,142,156</u>	<u>\$ 1,182,526</u>

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 6-Accounts Receivable - Other

Accounts receivable - other consists of the following:

	<u>2013</u>	<u>2012</u>
Accrued uncompensated care	\$ 265,294	\$
Uncollected sales tax revenue	223,162	257,537
Uncollected ad valorem tax revenue	425,572	431,822
Medicare/Medicaid EHR incentive payments receivable	860,738	446,852
All other	(18,955)	24,950
Total accounts receivable - other	<u>\$ 2,255,811</u>	<u>\$ 1,161,161</u>

Note 7-Capital Assets

A summary of capital assets additions, deductions, and balances at October 31, 2013 and 2012 are as follows:

	<u>Balance</u> <u>October 31,</u> <u>2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>October 31,</u> <u>2013</u>
Land and land improvements	\$ 554,633	\$ 818,244	\$	\$ 1,372,877
Buildings and leasehold improvements	6,070,058	53,974		6,124,032
Equipment	6,015,056	497,900	(98,941)	6,414,015
Construction in progress	49,465	234,678		284,143
Total capital assets	12,689,212	1,604,796	(98,941)	14,195,067
Accumulated depreciation:	<u>(6,622,932)</u>	<u>(923,093)</u>	98,941	(7,447,084)
Total capital assets, net	<u>\$ 6,066,280</u>	<u>\$ 681,703</u>	<u>\$</u>	<u>\$ 6,747,983</u>

	<u>Balance</u> <u>October 31,</u> <u>2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>October 31,</u> <u>2012</u>
Land and land improvements	\$ 540,922	\$ 13,711	\$	\$ 554,633
Buildings and leasehold improvements	4,597,181	1,472,877		6,070,058
Equipment	5,231,043	900,234	(116,221)	6,015,056
Construction in progress	2,285,632	561,961	(2,798,128)	49,465
Total capital assets	12,654,778	2,948,783	(2,914,349)	12,689,212
Accumulated depreciation	(5,925,411)	(797,102)	99,581	(6,622,932)
Total capital assets, net	<u>\$ 6,729,367</u>	<u>\$2,151,681</u>	<u>\$(2,814,768)</u>	<u>\$ 6,066,280</u>

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 8-Net Patient Service Revenue

The following schedule represents Net Patient Service Revenue at October 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue	\$20,292,091	\$17,636,230
Less: contractual adjustments and provision for bad debts	9,591,810	7,337,879
	10,700,281	10,298,351
Uncompensated care income		1,039,464
Net patient service revenue	<u>\$10,700,281</u>	<u>\$11,337,815</u>

Note 9-Deferred Revenue

Deferred revenue represents the unearned portion of compensation received by the Hospital prior to its fiscal year-end for providing care to low-income patients. The compensation is recognized in revenue over the State's fiscal year from July 1st to June 30th of each year.

Note 10-Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone, based on established rates, were approximately \$560,437 and \$491,223 for the years ended October 31, 2013 and 2012, respectively.

Management estimates that approximately \$416,219 and \$418,549 of costs were related to charity care for the years ended October 31, 2013 and 2012, respectively. This estimate is based on a ratio of total cost to gross patient charges applied to gross uncompensated charges associated with providing care to charity patients.

Note 11-Grant Revenue

Rural Hospital Upper Payment Limit

The Hospital routinely provides a substantial amount of uncompensated care to patients in its service area. To receive adequate reimbursement for the essential healthcare services provided to disadvantaged and low income populations, the Hospital entered into a grant distribution cooperative endeavor agreement with Building Healthy Communities, Inc. (BHC).

Under this agreement, BHC has agreed to cooperate in the establishment of a funding program by contributing a portion of the Upper Payment Limit (UPL) payments that result from Medicaid State Plan Amendments (SPA) to rural hospitals, including West Feliciana Parish Hospital Service District No. 1. The purpose of the UPL payments is to help ensure adequate and essential healthcare services are accessible and available to low-income and/or indigent citizens.

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 11-Grant Revenue (Continued)

Rural Hospital Upper Payment Limit (Continued)

For the years ended October 31, 2013 and 2012, the Hospital received grants of \$3,131,313 and \$2,040,113, respectively, under this agreement, which is recognized as grant revenue in other operating revenue in the accompanying statements of revenues, expenses, and changes in net position. As a condition of the grant agreement, the Hospital, along with other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement.

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. Medicaid EHR incentive payment revenue totaling \$641,250 and \$1,537,963 was recognized for the years ended October 31, 2013 and 2012, respectively. This revenue is included in other operating revenue in the accompanying statements of revenues, expenses, and changes in net position. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation compliance with the meaningful use criteria is subject to audit by the federal government.

Note 12-Tax Revenue

The Hospital receives tax revenue from sales tax and property tax collected on purchases and property assessments in West Feliciana Parish, Louisiana. The sales tax is used for the operation of the Hospital, and the property tax is used for the operation and maintenance of the Hospital.

Tax revenues were as follows:

	<u>2013</u>	<u>2012</u>
Sales tax	\$1,417,091	\$1,585,062
Ad valorem tax	510,035	485,527
State revenue sharing	<u>22,117</u>	<u>22,948</u>
Total tax revenues	<u>\$1,949,243</u>	<u>\$2,093,537</u>

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 13-Operating Leases

Lessee

The Hospital leases various equipment and facilities classified under operating leases. At October 31, 2013, there were no operating leases with remaining terms in excess of one year. Total lease expense was \$26,730 in 2012. There was no lease expense recorded in 2013 due to a credit memorandum issued by an equipment vendor.

Lessor

The Hospital leases office space on its campus to various medical service providers, under operating leases with terms ranging from month-to-month to one year. Revenues from these leases totaled \$30,478 in 2013 and \$30,643 in 2012. These revenues are included in other non-operating revenue in the financial statements.

Note 14-Cash Flows Supplemental Information

Total cash and cash equivalents for October 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$4,300,293	\$5,189,163
Assets whose use is limited - cash	<u>2,576,977</u>	<u>1,751,860</u>
Total cash and cash equivalents	<u>\$6,877,270</u>	<u>\$6,941,023</u>

Note 15-Compensated Absences

Accumulated unpaid vacation is accrued when earned. Full-time employees can earn and vest in vacation leave according to years of service as shown below:

<u>Years of Service</u>	<u>Vacation Time Earned</u>
Less than 5 years	6.67 hours per month
After 5 years	10.00 hours per month
After 10 years	13.33 hours per month

Sick pay is not vested and therefore not accrued. Employees only vest in vacation leave after one year of employment. The Hospital's policy is to recognize the cost of sick pay when actually paid to employees. Accrued compensated absences at October 31, 2013 and 2012 were \$226,280 and \$209,719, respectively.

Note 16-Retirement Plan

The Hospital has executed the Variable Annuity Life Insurance Company (VALIC) prototype Profit Sharing Plan with Cash or Deferred Arrangement Option Non Standardized Adoption Agreement No. 3. The defined contribution plan (457) provides benefits to substantially all employees. The Hospital matches contributions made by an employee up to six percent of the employee's compensation. Total payroll for the fiscal years ended October 31, 2013 and 2012 was \$5,867,526 and \$5,453,485, respectively. Covered payroll for the years 2013 and 2012 was \$5,821,883 and \$5,206,166, respectively. Total pension expense was \$197,272 and \$183,248 for 2013 and 2012, respectively.

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 17-Assets Measured at Fair Value on a Recurring Basis

The following presents assets measured at fair value on a recurring basis as of October 31, 2013 and 2012:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Un- observable Inputs (Level 3)</u>
October 31, 2013				
U.S. Agencies	\$5,408,132	\$5,408,132	\$ —	\$ —
U.S. Treasury Bills	<u>248,876</u>	<u>248,876</u>	<u>—</u>	<u>—</u>
	<u>\$5,657,008</u>	<u>\$5,657,008</u>	<u>\$ —</u>	<u>\$ —</u>
October 31, 2012				
U.S. Agencies	\$5,209,029	\$5,209,029	\$ —	\$ —
U.S. Treasury Bills	<u>498,482</u>	<u>498,482</u>	<u>—</u>	<u>—</u>
	<u>\$5,707,511</u>	<u>\$5,707,511</u>	<u>\$ —</u>	<u>\$ —</u>

Note 18-Commitments

Commitments for the purchase of consumables and services related to new hematology and chemistry analyzer systems totaled \$511,832 at October 31, 2013. Commitments related to the construction of a new hospital facility totaled \$2,035,016 at October 31, 2013. Commitments related to generators and switches totaled \$16,368 at October 31, 2013.

Note 19-Concentration of Credit Risk

The Hospital is located in St. Francisville, Louisiana and grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables (net of allowances) from patients and third-party payors at October 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Medicare	34.2%	40.2%
Medicaid	23.9%	32.9%
Commercial and other third-party payors	33.9%	18.5%
Self-pay	<u>8.0%</u>	<u>8.4%</u>
	<u>100.0%</u>	<u>100.0%</u>

West Feliciana Parish Hospital Service District No. 1
Notes to Financial Statements
October 31, 2013

Note 20-Payments to Board Members

The following is a schedule showing the amount paid to board members for the years ended October 31, 2013 and 2012. All remaining board members have declined compensation.

	<u>2013</u>	<u>2012</u>
Mitch Brasier	\$ 280	\$ 400
Raymond Minor	440	440
Melvin Harvey	<u>440</u>	<u>400</u>
	<u>\$1,160</u>	<u>\$1,240</u>

Note 21-Related Party Transactions

On August 20, 2013, the Hospital purchased 7.67 acres of land from the West Feliciana Parish Police Jury, a political subdivision of the State of Louisiana, for the total purchase price of \$813,000 (\$106,000 per acre).

Note 22-Subsequent Events

Management evaluated all subsequent events through April 3, 2014, the date the financial statements were available to be issued, and determined that no events occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Supplementary Information

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

LOUIS C. McKNIGHT, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.
NEAL D. KING, C.P.A.
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CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditor's Report
on Supplementary Information**

Board of Commissioners
West Feliciana Parish Hospital Service District No. 1
St. Francisville, Louisiana

We have audited the financial statements of West Feliciana Parish Hospital Service District No. 1 as of and for the years ended October 31, 2013 and 2012, and have issued our report thereon dated April 3, 2014, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, identified in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hawthorn, Waymouth & Carroll, LLP

April 3, 2014

West Feliciana Parish Hospital Service District No. 1
Schedule of Net Patient Service Revenue
Years Ended October 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Patient Service Revenue		
Ambulance service	\$ 1,177,270	\$ 985,966
Blood bank	16,376	18,791
Central services	48,075	36,864
CT Scan	1,591,026	1,586,444
Diabetes clinic	21,479	33,863
Echocardiogram	95,227	78,895
Electrocardiology	117,936	97,344
Emergency services	3,560,102	2,721,617
Family medicine	446,307	177,776
Intensive outpatient psychiatry	1,591,200	378,000
Laboratory	4,354,272	3,967,200
MRI Scan	366,950	321,036
Nursing services	542,097	604,740
Occupational therapy	117,852	202,727
Pediatrics	629,069	396,476
Pharmacy	647,210	574,177
Physical therapy	1,453,786	1,141,297
Physician's fees	1,155,169	1,438,866
Radiology - diagnostic	1,024,623	1,031,303
Respiratory therapy	375,863	451,012
Sleep studies	74,400	119,700
Speech therapy	110,751	79,000
Ultrasound	368,827	297,771
Wound care	406,224	895,365
Gross patient service revenue	20,292,091	17,636,230
Less: contractual adjustments and discounts	<u>6,739,333</u>	<u>4,935,697</u>
Net patient service revenue before uncompensated care	13,552,758	12,700,533
Uncompensated care income	<u>—</u>	<u>1,039,464</u>
Net patient service revenue	\$13,552,758	\$13,739,997

West Feliciana Parish Hospital Service District No. 1
Schedule of Operating Expenses
Years Ended October 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries, Wages and Benefits		
Administrative	\$ 234,396	\$ 233,733
Ambulance	642,632	541,546
Business office	513,824	514,448
Central supply	83,146	88,323
CT scan	90	765
Diabetes clinic	12,439	32,904
Dietary management	111,847	108,092
Echocardiogram	32,774	32,387
Emergency room	429,544	474,476
Family medicine	197,197	152,638
Housekeeping	149,679	141,702
Information technology	138,006	78,106
Intensive outpatient psychiatry	299,072	110,280
Laboratory technicians	591,006	542,419
Medical records	150,089	148,188
Nursing services	890,871	838,270
Pediatrics	206,476	202,591
Plant operations	222,375	208,375
Purchasing	53,255	51,328
Radiology	381,548	386,123
Respiratory therapy	346,960	362,351
Social services	40,223	37,075
Surgery	—	269
Ultrasound	51,941	80,351
Utilization review	<u>88,136</u>	<u>86,745</u>
 Total salaries and wages	 5,867,526	 5,453,485
 Total benefits	 <u>1,485,501</u>	 <u>1,288,004</u>
 Total salaries, wages, and benefits	 <u>\$7,353,027</u>	 <u>\$6,741,489</u>

West Feliciana Parish Hospital Service District No. 1
Schedule of Operating Expenses (Continued)
Years Ended October 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Professional Services		
Administrative	\$ 135,406	\$ 235,195
Ambulance	4,282	11,163
Anesthesia	4,800	3,600
Blood bank	19,637	19,113
Business office	13,393	13,351
Diabetes clinic	—	640
Dietary	24,010	26,010
Echocardiogram	—	184
EKG	10,389	11,445
Emergency room physician fees	1,304,832	1,263,115
Information technology	11,411	1,440
Intensive outpatient psychiatry	229,431	160,693
Laboratory	167,586	156,575
Laundry/linen	22,716	36,955
Medical records	1,503	3,289
MRI scan	110,450	93,007
Nursing services	24,132	15,998
Occupational therapy	43,806	52,908
Pharmacy	85,861	115,264
Physical therapy	500,094	385,297
Plant operations	91,997	99,324
Radiology	50,561	15,660
Respiratory therapy	2,070	7,269
Sleep studies	11,550	18,710
Social services	16,387	9,888
Speech therapy	33,433	22,118
Surgery	2,048	3,495
Wound care	273,075	322,675
All other	<u>68,231</u>	<u>19,420</u>
 Total professional services	 <u>\$3,263,091</u>	 <u>\$3,123,801</u>

West Feliciana Parish Hospital Service District No. 1
Schedule of Operating Expenses (Continued)
Years Ended October 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Supplies and Other Expenses		
Administrative	\$ 17,252	\$ 16,388
Ambulance	96,084	92,063
Business office	25,594	24,888
Central services	47,368	130,407
CT scan	8,219	9,325
Diabetes clinic	1,645	3,150
Dietary	86,036	72,067
Emergency Room	24,324	28,973
Family medicine	30,629	6,515
Housekeeping	41,849	30,451
Information technology	14,584	23,326
Intensive outpatient psychiatry	52,442	35,507
Laboratory	342,670	301,278
Medical records	5,455	6,489
Nursing services	60,735	67,151
Occupational therapy	575	718
Patient transportation		1,686
Pediatrics	69,205	13,040
Pharmacy	231,744	243,619
Physical therapy	26,766	21,435
Plant operations	90,804	108,033
Radiology	23,884	15,517
Respiratory therapy	26,141	17,546
Surgery	2,730	
All other	7,263	8,067
 Total supplies and other expenses	 \$1,323,998	 \$ 1,277,639

West Feliciana Parish Hospital Service District No. 1
Schedule of Operating Expenses (Continued)
Years Ended October 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Other Operating Expenses		
Administrative	\$ 59,719	\$ 67,710
Audit and legal fees	261,288	159,289
Collection fees	279,290	171,785
CT scan	75,926	80,931
Dues and subscriptions	16,812	29,034
Education	106,593	99,083
Family medicine	11,602	4,638
Insurance	178,751	123,006
Intensive outpatient psychiatry	32,945	9,638
Laboratory	32,716	30,083
Nursing services	694	1,542
Office space and resource sharing	489,813	395,310
Pediatrics	17,288	13,347
Physical therapy	1,358	8,093
Plant operations	172,409	152,884
Postage	7,688	7,572
Public relations	167,399	171,483
Radiology	36,804	51,552
Telephone	50,826	92,107
Ultrasound	6,830	7,205
All other	184,635	173,155
 Total other operating expenses	 \$2,191,386	 \$1,849,447

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**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

Board of Commissioners
West Feliciana Parish Hospital Service District No. 1
St. Francisville, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Feliciana Parish Hospital Service District No. 1, as of and for the year ended October 31, 2013, and the related notes to the financial statements, which collectively comprise West Feliciana Parish Hospital Service District No. 1's basic financial statements and have issued our report thereon dated April 3, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered West Feliciana Parish Hospital Service District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of West Feliciana Parish Hospital Service District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of West Feliciana Parish Hospital Service District No. 1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2013-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2013-02 and 2013-03 to be significant deficiencies.

Compliance and Other Matters

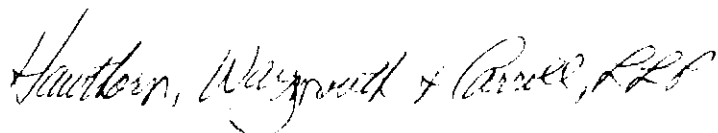
As part of obtaining reasonable assurance about whether West Feliciana Parish Hospital Service District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

West Feliciana Parish Hospital Service District No. 1's Response to Findings

West Feliciana Parish Hospital Service District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. West Feliciana Parish Hospital Service District No. 1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



April 3, 2014

West Feliciana Parish Hospital Service District No.1
Schedule of Current Year Audit Findings and Questioned Costs
October 31, 2013

Financial Statement Audit

2013-01 Untimely Recordation of Service Charges

Condition:

Patient service charges for service dates prior to year-end were not recorded in the current fiscal year.

Criteria:

Charges for patient services should be recorded in the period in which the services are performed.

Effect:

Patient service revenue was recognized in the subsequent year, which resulted in an understatement of revenue in the current year.

Cause:

Procedures to ensure that charges were recorded in the proper period were not followed by one department of the Hospital.

Auditor's Recommendation:

The Hospital should improve internal controls to ensure that all patient charges are being recorded in the period in which the service took place.

Management's Response:

The error was largely due to the billing of Physical Therapy patients who tend to have services for several weeks. In the past, patients were billed upon discharge or after a period of time had elapsed. Because of this, patient bills could be dropped after year-end. The new process is to bill Physical Therapy patients on a weekly basis or through the end of a period, whichever happens first. This should eliminate the recording of revenue in an incorrect period.

West Feliciana Parish Hospital Service District No.1
Schedule of Current Year Audit Findings and Questioned Costs
October 31, 2013

Financial Statement Audit (Continued)

2013-02 Inadequate Controls Over Credit Cards

Condition:

Several expenditures charged to the Hospital's credit card were lacking supporting documentation and/or approval.

Criteria:

Cash disbursement controls should include maintaining adequate, appropriate supporting documentation and proper approval for all purchases.

Effect:

The propriety of the transactions mentioned above where supporting documentation could not be located, could not be determined.

Cause:

The Hospital has inadequate controls over credit card usage, which increases its risk for misappropriation of the Hospital's assets.

Auditor's Recommendation:

We recommend that proper supporting documentation for all credit card charges be retained and kept with the original credit card statement. In addition, it is recommended that a member of the Board of Commissioners or designee review and document approval of the CEO's credit card activity on a monthly basis.

Management's Response:

The number of expenditures that lacked supporting documentation was small given the volume of total expenditures charged on the credit cards. However, it is the Hospital's desire to eliminate all expenditures without proper documentation. The current practice is to have the Purchasing Department keep a log of all expenditures which lack documentation on a monthly basis. This log is sent to the CEO, and the CEO will follow up with the department managers whose department did not turn in the documentation. The items that lacked supporting documentation have been reviewed and the expenditures seem appropriate.

Also, the Hospital has implemented the auditor's recommendation of having the CEO's credit card purchases signed off by a Board Member.

West Feliciana Parish Hospital Service District No.1
Schedule of Current Year Audit Findings and Questioned Costs
October 31, 2013

Financial Statement Audit (Continued)

2013-03 Clinic Accounts Receivable

Condition:

The Physician and Pediatric Clinics' accounts receivable software does not interface with the Hospital's general ledger. No accounts receivable subsidiary or aging analysis was generated as of 10/31/13 for the WFPH Pediatric Clinic.

Criteria:

To ensure accuracy and operating efficiency, all software should interface with the central software system.

Effect:

The Clinic's accounts receivable are not being reconciled, possibly allowing errors or misappropriations to go undetected.

Cause:

The Clinic's patient billing and receivable software does not interface with the Hospital's general ledger. The Clinic does not have policies and procedures in place over accounts receivable to ensure they are accurate and appropriately settled or collected.

Auditor's Recommendation:

We recommend the Hospital consider purchasing interface software which would facilitate the integration of the Clinic's accounts receivable information in the Hospital's general ledger accounting software.

Management's Response:

We moved our Pediatrician Practice to Dr. Pat Schneider's Practice in July of 2013. There were delays in billing for some services largely due to waiting on clearance of the new credentialing needed to be in place because of the move to the new location. This then delayed billing, which in turn delayed dropping claims, which affected the Accounts Receivable reports. Since 10/31/2013, these issues have been resolved and the process of billing and reporting of Accounts Receivable are timely. The auditor's recommendation of purchasing software to interface the two systems is not practical at this point because the cost to do so is \$5,000 to \$10,000, and Dr. Schneider's Practice may change software vendors before year's end and a new interface would need to be purchased at that point. Our plan in the short run is to make sure the bills are dropped timely and monitor Accounts Receivable reports. Once a long range discussion is made as to the Practice software, then the purchase of an interface could be considered.

**West Feliciana Parish Hospital Service District No. 1
Schedule of Prior Year Audit Findings and Questioned Costs
October 31, 2013**

Findings - Financial Statement Audit

2012-01 Compensation to Physician

Criteria

State law requires governmental entities to pay employees for services actually rendered and prohibits bonuses or any other pay other than what is contractually due.

Condition

A physician received compensation for seven weeks prior to his completion of the licensing and credentialing process, which resulted in his inability to see patients until April 2012. Compensation received prior to the physician being fully licensed and credentialed totaled \$22,211.

Cause

The physician was paid in accordance with his contract for a period in which he was not qualified to practice in the full capacity that was stated in his contract.

Effect

The Physician was paid wages he was not entitled to receive.

Recommendation

Management should only pay employees for services actually rendered to ensure compliance with state law. Additionally, we recommend that new physicians not be hired until all licenses have been obtained.

Management's Response

This Primary Care Physician completed his Medical School in an off cycle semester and he attended Medical School outside of the Continental United States. These circumstances may have been factors as to why the time to have his license issued was longer than normal. It is important to note that nothing in the Physician's background or character were causes in the delay. The Hospital anticipated hiring the Physician earlier; however, with the delay in receiving his Medical licensure, the Hospital didn't hire the Physician until his license was issued on 02-13-2012.

Once Medical Licensure is obtained, application for DEA Licenses can be made. Usually the DEA licenses are issued within a couple of days of application. However, in his case the State and Federal DEA licenses were not received until March 6th and 9th, respectively. Since credentialing with Medicare, Medicaid, and commercial insurances cannot be completed until all licenses are received, there was a delay in having the credentialing process completed. In most cases without the proper credentialing, the physician cannot see patients, order tests, write prescriptions, or get paid for services.

Since the Physician did not see patients during the time between February 13th and the end of March, that time was used for other activities, such as training and orientation.

West Feliciana Parish Hospital Service District No.1
Schedule of Prior Year Audit Findings and Questioned Costs
October 31, 2013

Findings - Financial Statement Audit

2012-01 Compensation to Physician (Continued)

Management's Response (Continued):

Having a Physician start a practice right out of Residency is a slow building process, even in the best of circumstances. However, the longer than anticipated DEA License being issued created a chain of events that prolonged the time the physician was able to begin to see patients. Although the physician's activities were limited due to not being able to see most patients during this period, his time was used for other purposes. Specifically, this time was used to orient the Physician to the new practice, train on office software, learn the electronic medical record software, and assist in credentialing.

The Hospital does agree with the recommendation that future physicians should not be hired until all the licensure is obtained, and will implement this requirement. This should ensure compliance and is a reasonable step to put in place.

Although delayed longer than anticipated, the physician did begin seeing patients. He saw one in March, and through April billed 193 CPT Units for \$17,817. Being able to bring in a Family Practitioner into a rural community is a very difficult task given the challenges of recruiting to rural communities and the shortage of Primary Care Physicians. Long-term, having this Primary Care Physician working in our community and bringing healthcare to the community of West Feliciana will far outweigh the loss of production in the first seven weeks of his career.

Status: This finding has been resolved.

West Feliciana Parish Hospital Service District No.1
Schedule of Prior Year Audit Findings and Questioned Costs
October 31, 2013

Findings - Financial Statement Audit

2012-02 Supervisor Receiving Call Pay

Criteria

State law requires governmental entities to pay employees for services actually rendered and prohibits bonuses or any other pay other than what is contractually due.

Condition

The Hospital has a policy providing for the coverage of management responsibilities while a department manager is on vacation or out of town on business. The manager is to designate a staff member from their department to take call in their absence at a rate of \$3 per hour for specified time frames. This policy applies to the Nursing, Laboratory, Respiratory, Imaging, and Admissions departments. We noted that a department manager was paid for 132 hours of call time at a rate of \$12.50 per hour, which totals \$1,650. The employee was not entitled to receive call pay of any amount, as call pay is strictly paid to the employee who covers the manager's responsibilities in their absence. Also, the call pay rate of \$12.50 per hour exceeds the approved rate of \$3 per hour per the Hospital's policy.

Cause

This was the result of incorrect implementation of Hospital policy regarding call time.

Effect

Employee received wages for call time they were not entitled to receive.

Recommendation

The Hospital should ensure that the appropriate departments understand the policy regarding call time and implement controls to detect when the policy is not being followed. Employees should be reminded of the proper procedures for call time.

Management's Response

There was a miscommunication of a new policy by the employee. It has since been resolved. The manager was made aware of the policy and payroll is ensuring that the policy is being followed.

Status: This finding has been resolved.

West Feliciana Parish Hospital Service District No.1
Schedule of Prior Year Audit Findings and Questioned Costs
October 31, 2013

Findings - Financial Statement Audit

2012-03 Reimbursements from Third-Party Payors

Criteria

A system of internal controls should be in place to provide reasonable assurance that the Hospital is being reimbursed for the correct contractual amounts from commercial insurance providers and other third-party payors.

Condition

The Hospital was unable to locate the fee schedule that accompanied its contract with a major commercial insurance provider.

Cause

The Hospital lacks controls to ensure that reimbursements from commercial and other third-party payors are being made in accordance with the terms of the respective contracts.

Effect

The Hospital may be receiving reimbursements at amounts that differ from the reimbursement rates that are set forth in the various contracts between the Hospital and third-party payors.

Recommendation

The Hospital should ensure that the most recent contracts with third-party payors are kept on file. We recommend that management periodically examine reimbursements from commercial and other third-party payors in order to determine that they are being paid in accordance with their respective contracts.

Management's Response

The Hospital is in the process of reviewing and renegotiating all major contracts with providers. Management will periodically review reimbursements from commercial and other third-party payors.

Status: This finding has been resolved.